



PATHWAY LIVING CENTER, INC.
Clinton, Iowa

FINANCIAL STATEMENTS
June 30, 2004 and 2003



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PATHWAY LIVING CENTER, INC.

OFFICIALS

Board of Directors

June 30, 2004

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Jim McLallen	President	2004
Doug Rempfer	Vice-President	2005
Dr. Steven Decker	Secretary	2005
Jennifer Gutierrez	Treasurer	2004
Dan Waters	Member	2004
Rev. Michael Brewer	Member	2005
Rich Matzen	Member	2005
LaRee Mangler	Member	2006
Judy Wallace	Member	2006
Michelle Waltz	Member	2006
Melissa Peterson	Executive Director	Indefinite

Board of Directors

June 30, 2003

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Jim McLallen	President	2004
Doug Rempfer	Vice-President	2004
Dr. Steven Decker	Secretary	2004
Jennifer Gutierrez	Treasurer	2004
Rev. Michael Brewer	Member	2004
Rich Matzen	Member	2004
Dan Waters	Member	2004
LaRee Mangler	Member	2006
Judy Wallace	Member	2006
Michelle Waltz	Member	2006
Melissa Peterson	Executive Director	Indefinite

Independent Auditor's Report

To the Board of Directors
Pathway Living Center, Inc.
Clinton, Iowa

We have audited the accompanying financial statements of Pathway Living Center, Inc. as of and for the years ended June 30, 2004 and 2003, as listed in the table of contents. These financial statements are the responsibility of Pathway Living Center, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pathway Living Center, Inc. as of June 30, 2004 and 2003, and the changes in its net assets and its cash flows for the years then ended conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2004 on our consideration of Pathway Living Center, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Clifton Gunderson LLP

Clinton, Iowa
October 18, 2004

PATHWAY LIVING CENTER, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
ASSETS		
Cash and cash equivalents	\$ 106,594	\$ 125,259
Accounts receivable	354,493	271,579
Prepaid expenses	6,264	3,636
Land, buildings, equipment, vehicles, and furniture and fixtures at cost less accumulated depreciation of \$223,422 in 2004 and \$197,451 in 2003	<u>417,555</u>	<u>401,626</u>
TOTAL ASSETS	<u><u>\$ 884,906</u></u>	<u><u>\$ 802,100</u></u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 8,690	\$ 19,040
Accrued payroll and compensated absences	60,327	57,832
Accrued payroll taxes and deductions	7,312	7,645
Property tax payable	1,704	-
Mortgages payable	<u>35,573</u>	<u>42,306</u>
Total liabilities	113,606	126,823
NET ASSETS		
Unrestricted	<u>771,300</u>	<u>675,277</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 884,906</u></u>	<u><u>\$ 802,100</u></u>

These financial statements should be read only in connection with the
accompanying summary of significant accounting policies
and notes to financial statements.

PATHWAY LIVING CENTER, INC.
STATEMENTS OF ACTIVITIES
Years Ended June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
REVENUES, GAINS, AND OTHER SUPPORT		
Other governmental revenue	\$ 74,320	\$ 87,615
Medicaid	1,096,834	847,424
Individuals	74,467	36,519
Rent	39,748	41,346
Grant revenue	51,994	20,384
Interest	1,685	3,345
Other	8,369	8,693
	<u>1,347,417</u>	<u>1,045,326</u>
EXPENSES		
Program services		
Community based	1,161,498	898,383
Homeless housing	31,585	37,316
Total program services	<u>1,193,083</u>	<u>935,699</u>
General and administrative	<u>58,311</u>	<u>54,369</u>
	<u>1,251,394</u>	<u>990,068</u>
CHANGE IN NET ASSETS	96,023	55,258
NET ASSETS, BEGINNING OF YEAR	<u>675,277</u>	<u>620,019</u>
NET ASSETS, END OF YEAR	<u><u>\$ 771,300</u></u>	<u><u>\$ 675,277</u></u>

These financial statements should be read only in connection with the
accompanying summary of significant accounting policies
and notes to financial statements.

PATHWAY LIVING CENTER, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
Years Ended June 30, 2004 and 2003

	2004			
	Community Based	Homeless Housing	General and Administrative	Total
Staff salaries	\$ 815,239	\$ 907	\$ 48,150	\$ 864,296
Employee benefits	113,977	-	6,732	120,709
Payroll taxes	58,051	-	3,429	61,480
Staff development and training	15,803	-	-	15,803
Travel	15,894	12	-	15,906
Community assistance	-	38	-	38
Vehicle maintenance	9,768	-	-	9,768
Programming	3,277	-	-	3,277
Food	11,109	-	-	11,109
Consumer allowances	6,205	-	-	6,205
Furnishings	1,157	86	-	1,243
Household supplies	2,788	47	-	2,835
Janitorial supplies	814	-	-	814
Medical supplies	195	-	-	195
Office supplies	9,559	-	-	9,559
Printing	983	-	-	983
Postage	1,360	45	-	1,405
Telephone	7,931	80	-	8,011
Pagers	222	-	-	222
Networking	959	-	-	959
Utilities	16,032	6,416	-	22,448
Management fees	-	3,523	-	3,523
Building and grounds	20,789	7,115	-	27,904
Insurance	14,084	3,047	-	17,131
Bad debt expense	4,090	-	-	4,090
Professional fees	6,675	220	-	6,895
Depreciation	22,477	7,627	-	30,104
Interest expense	1,577	1,990	-	3,567
Dues and subscriptions	255	25	-	280
Property taxes	-	202	-	202
Miscellaneous	228	205	-	433
TOTAL EXPENSES	\$ 1,161,498	\$ 31,585	\$ 58,311	\$ 1,251,394

PATHWAY LIVING CENTER, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
Years Ended June 30, 2004 and 2003

	2003			
	Community Based	Homeless Housing	General and Administrative	Total
Staff salaries	\$ 625,085	\$ 1,049	\$ 44,916	\$ 671,050
Employee benefits	81,431	-	5,851	87,282
Payroll taxes	50,125	-	3,602	53,727
Staff development and training	16,513	-	-	16,513
Travel	12,720	116	-	12,836
Community assistance	-	-	-	-
Vehicle maintenance	7,782	-	-	7,782
Programming	2,983	-	-	2,983
Food	7,502	-	-	7,502
Consumer allowances	3,448	-	-	3,448
Furnishings	2,045	151	-	2,196
Household supplies	2,689	11	-	2,700
Janitorial supplies	529	-	-	529
Medical supplies	173	-	-	173
Office supplies	6,778	-	-	6,778
Printing	915	-	-	915
Postage	1,316	49	-	1,365
Telephone	7,395	432	-	7,827
Pagers	222	-	-	222
Networking	-	-	-	-
Utilities	11,634	8,523	-	20,157
Management fees	-	3,519	-	3,519
Building and grounds	14,555	7,789	-	22,344
Insurance	10,358	2,000	-	12,358
Bad debt expense	-	-	-	-
Professional fees	6,745	350	-	7,095
Depreciation	21,904	6,820	-	28,724
Interest expense	1,169	2,213	-	3,382
Dues and subscriptions	1,105	-	-	1,105
Property taxes	-	4,195	-	4,195
Miscellaneous	1,262	99	-	1,361
TOTAL EXPENSES	\$ 898,383	\$ 37,316	\$ 54,369	\$ 990,068

These financial statements should be read only in connection with the
accompanying summary of significant accounting policies
and notes to financial statements.

PATHWAY LIVING CENTER, INC.
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 96,023	\$ 55,258
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	30,104	28,724
Loss on sale of equipment	-	110
Bad debts	4,090	-
Effects of changes in operating assets and liabilities:		
Accounts receivable	(87,004)	(56,164)
Prepaid expenses	(2,628)	(302)
Accounts payable	(10,350)	11,861
Accrued payroll and compensated absences	2,495	16,555
Accrued payroll taxes and deductions	(333)	5,392
Property tax payable	1,704	(2,217)
Retirement plan payable	-	(18,986)
	<u>34,101</u>	<u>40,231</u>
Net cash provided by operating activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of equipment, vehicles, and furniture and fixtures	<u>(46,033)</u>	<u>(41,398)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from borrowings under line-of-credit agreement	64,000	-
Payments on borrowings under line-of-credit agreement	(64,000)	-
Principal payments on mortgages payable	<u>(6,733)</u>	<u>(6,150)</u>
	<u>(6,733)</u>	<u>(6,150)</u>
Net cash used in financing activities		
NET DECREASE IN CASH AND CASH EQUIVALENTS	(18,665)	(7,317)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>125,259</u>	<u>132,576</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 106,594</u></u>	<u><u>\$ 125,259</u></u>

Cash paid for interest was \$3,567 in 2004 and \$3,382 in 2003.

These financial statements should be read only in connection with the
accompanying summary of significant accounting policies
and notes to financial statements.

PATHWAY LIVING CENTER, INC.
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
June 30, 2004 and 2003

Pathway Living Center, Inc. was established as a nonprofit organization to provide a recovering environment to persons who otherwise lack support in daily living, suffer social isolation and/or experience financial hardships. Pathway Living Center, Inc., advocates for the needs of individuals with chronic mental illness. It is a consumer-oriented program that promotes individual empowerment to make choices based on personal needs. The prevailing service delivery goals are to give the consumers choices in determining where to live, work, learn and recreate in the community of their choice and assist consumers in accessing resources to meet their specific needs.

USES OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses, gains, losses, and other changes in net assets during the reporting period. Actual results could differ from those estimates.

BASIS OF ACCOUNTING

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with generally accepted accounting principles. Revenues are recognized when earned and expenses are recorded when the liability is incurred.

BASIS OF PRESENTATION

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of Pathway Living Center, Inc. and changes therein are classified and reported as follows:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations.

CASH AND CASH EQUIVALENTS

For purposes of the statement of cash flows, Pathway Living Center, Inc. considers all cash on deposit at banks, including savings and money market accounts, to be cash equivalents.

PATHWAY LIVING CENTER, INC.
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
June 30, 2004 and 2003

ACCOUNTS RECEIVABLE

Accounts receivable are recorded when invoices are issued and are presented in the balance sheet net of the allowance for doubtful accounts. Accounts receivable are written off when they are determined to be uncollectible. Pathway Living Center, Inc. believes no allowance for doubtful accounts is necessary at June 30, 2004 and 2003.

LAND, BUILDINGS, EQUIPMENT, VEHICLES, AND FURNITURE AND FIXTURES

Land is stated at cost. Buildings, equipment, vehicles, and furniture and fixtures are stated at cost less accumulated depreciation. The cost of buildings, equipment, vehicles, and furniture and fixtures is being depreciated over their estimated useful lives, using the straight-line method. Rates of depreciation vary from seven to forty years on buildings, five to ten years on equipment, five years on vehicles, and five to seven years on furniture and fixtures.

COMPENSATED ABSENCES

Pathway Living Center, Inc. employees accumulate a limited amount of earned but unused vacation and sick benefits payable to employees. Amounts representing the cost of compensated absences are recorded as liabilities and have been computed based on rates of pay in effect at June 30, 2004 and 2003.

INCOME TAX STATUS

Due to the nature of the services provided, Pathway Living Center, Inc. is exempt from Federal income taxes under Section 501(c) (3) of the Internal Revenue Code and a similar section of the Iowa state income tax law.

This information is an integral part of the accompanying financial statements.

PATHWAY LIVING CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2004 and 2003

NOTE 1 - LAND, BUILDINGS, EQUIPMENT, VEHICLES, AND FURNITURE AND FIXTURES

At June 30, 2004 and 2003, the composition of land, buildings, equipment, vehicles, and furniture and fixtures was as follows:

	<u>2004</u>	<u>2003</u>
Land	\$ 13,425	\$ 13,425
Buildings	509,727	486,844
Equipment	60,882	58,142
Vehicles	40,596	25,529
Furniture and fixtures	16,347	15,137
Total cost	<u>640,977</u>	<u>599,077</u>
Less accumulated depreciation	<u>(223,422)</u>	<u>(197,451)</u>
Total land, buildings, equipment, vehicles, and furniture and fixtures	<u><u>\$ 417,555</u></u>	<u><u>\$ 401,626</u></u>

Depreciation expense was \$30,104 and \$28,724 for the years ended June 30, 2004 and 2003, respectively.

NOTE 2 - MORTGAGES PAYABLE

Mortgages payable at June 30, 2004 and 2003 consisted of the following:

	<u>2004</u>	<u>2003</u>
Loan agreement with Gateway State Bank dated March 9, 2001 in the amount of \$20,121. The interest rate in effect is 8.250%. Interest is payable monthly. Principal is due on demand, however, if not demanded, 60 monthly payments of \$410 each, beginning April 8, 2001 and continuing through and including March 8, 2006 on which date all outstanding principal and accrued but unpaid interest shall be due and payable in full. Secured by a deed of trust, with a book value of \$131,840 and \$135,865 for the years ended June 30, 2004 and 2003, respectively.	\$ 7,614	\$ 11,730
Loan agreement with Gateway State Bank dated April 26, 2002 in the amount of \$33,395. The interest rate in effect is 6.750%. Interest is payable monthly. Principal is due on demand, however, if not demanded, 35 monthly payments of \$384 each, beginning June 1, 2002 and continuing through and including May 1, 2005 on which date all outstanding principal and accrued but unpaid interest shall be due and payable in full. Secured by real estate, with a book value of \$103,889 and \$106,709 for the years ended June 30, 2004 and 2003, respectively.	<u>27,959</u>	<u>30,576</u>
Total mortgages payable	35,573	42,306
Less portion due in one year	<u>35,573</u>	<u>42,306</u>
Long-term mortgages payable	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

PATHWAY LIVING CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2004 and 2003

NOTE 3 - RETIREMENT PLAN

On September 1, 1998, Pathway Living Center, Inc. adopted the Pathway Living Center, Inc. 401(k) Plan. Employee contributions are discretionary and are limited to the percentage and dollar limits prescribed by law. The maximum amount the employer will match, if any, is on the first 1.5% of compensation deposited as elective contributions.

The employer matching contribution to the Plan for the years ended June 30, 2004 and 2003 was \$34,930 and \$28,665, respectively.

This information is an integral part of the accompanying financial statements.

**Independent Auditor's Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with Government Auditing Standards**

To the Board of Directors
Pathway Living Center, Inc.
Clinton, Iowa

We have audited the financial statements of Pathway Living Center, Inc. as of and for the year ended June 30, 2004 and have issued our report thereon dated October 18, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Pathway Living Center, Inc.'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Pathway Living Center, Inc.'s ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings and responses as item 2004-1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly would not necessarily disclose all reportable conditions that are also considered to be a material weakness. However, we consider item 2004-1 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Pathway Living Center, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about Pathway Living Center, Inc.'s operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of Pathway Living Center, Inc. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. Comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report is intended solely for the information and use of the Board of Director's, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Clifton Gunderson LLP

Clinton, Iowa
October 18, 2004

PATHWAY LIVING CENTER, INC.
SCHEDULE OF FINDINGS AND RESPONSES
Years Ended June 30, 2004 and 2003

Section I - Financial Statement Findings:

Instances of Non-compliance

No matters were noted.

Reportable Conditions

2004-1 Segregation of Duties - Two people have the primary responsibility for most of the accounting and financial duties. As a result, all of those aspects of internal control which rely upon an adequate segregation of duties are, for all practical purposes, missing. We recognize that Pathway Living Center, Inc. is not large enough to make the employment of additional persons for the purpose of segregating duties practicable from a financial standpoint, but we are required, under our professional responsibilities, to call the situation to your attention.

Recommendation - When this condition exists, management's close supervision and review of accounting information is the best means of preventing or detecting errors and irregularities.

Response - Management will continue to maintain close supervision and review accounting information, but an adequate segregation of duties problem will remain due to the limited number of staff.

Conclusion - Response accepted.

Section II - Other Findings Related to Required Statutory Reporting:

None